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Colombia Strategy

Uribe denied re-election bid; Underweight Colombia

Investment conclusion: Political uncertainty in Colombia is rising and should limit short-term market performance. We reiterate our Underweight rating on Colombian equities and we will wait for an opportunity to buy the market when the local IGBC falls below 10,000 points (15% lower than the current 11,725-point level).

What's new: Colombia's constitutional court ruled by 7-2 against conducting a referendum on allowing President Uribe to seek a third term in office. Recent polls suggest Mr. Uribe would secure almost 50% of the vote intentions in the May 2010 Presidential election. Hence, we believe the court's decision leaves the country with a political overhang in the short term (Exhibit 1).

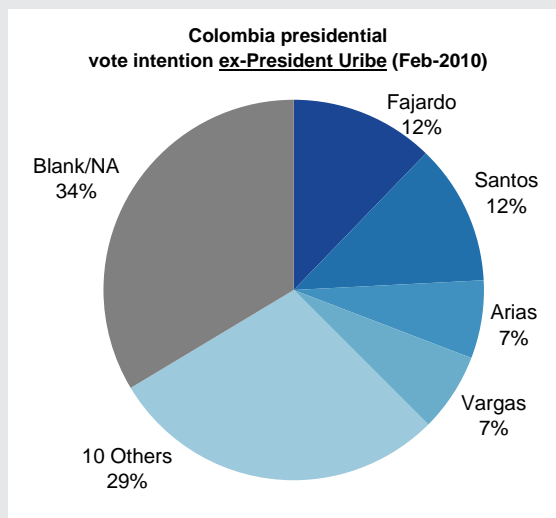
What this means for the market: We think the political uncertainty – the top four Presidential candidates combined have only 38% of the vote intentions in recent polls – will weigh heavily on the equity market over the next two months. The IGBC has been the best performing local index in the region (up 7.2% in U.S. dollar terms) year-to-date and it is now due for a correction, in our view.

What's next: On the political front, there are two near term events to watch:

1) The definition of the government's new Presidential candidate. Former Defense Minister Juan Manuel Santos, from the "Unidad Nacional" party, seems to be the strongest contender; and

2) Congressional elections scheduled for March 14.

Exhibit 1. Court ruling leads to political overhang in Colombia...



...which should limit near-term performance

Index	2/26/2010	Target	Upside (USD)	YTD (USD)
Brazilian Bovespa	66,503	85,000	36%	-6.4%
Mexican Bolsa	31,635	42,500	24%	1.0%
Chilean IPSA	3,827	3,800	4%	3.4%
Colombian IGBC	11,725	13,500	14%	7.2%
Peruvian IGBVL	14,002	17,500	29%	0.3%
MSCI LA	3,903	5,000	28%	-5.2%

2010 Multiple	PE	EV/E	Div. Yield	P/BV
Brazilian Bovespa	13.3	7.7	3.7%	1.9
Mexican Bolsa	15.1	6.4	1.6%	2.5
Chilean IPSA	18.0	12.0	3.0%	3.0
Colombian IGBC	17.5	8.5	3.0%	2.4
Peruvian IGBVL	14.0	8.7	3.6%	3.6

Source: Datexco, Bloomberg and Morgan Stanley research

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(as of February 28, 2010)

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Total	2,530		751		

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